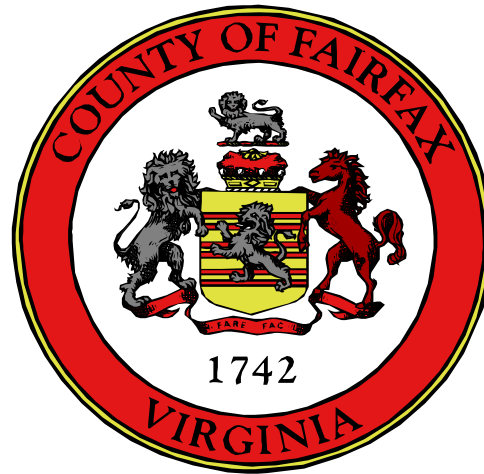


# **INTERNAL AUDIT REPORT**

## **REVIEW OF CONTROLS OVER THE BANK RECONCILIATION PROCESS**



*Fairfax County Internal Audit Office*

**FAIRFAX COUNTY, VIRGINIA  
INTERNAL AUDIT OFFICE  
M E M O R A N D U M**

**TO:** Anthony H. Griffin  
County Executive

**DATE:** January 19, 2000

**FROM:** Ronald A. Coen, Director  
Internal Audit Office

**SUBJECT:** Report of "*Review of Controls Over the Bank Reconciliation Process*"

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This is a report on "*Review of Controls Over the Bank Reconciliation Process*". It was performed as part of our FY 2000 Annual Audit Plan.

The findings and recommendations of this audit were discussed with the Department of Finance and Department of Housing. We have reached agreement on all of the recommendations and I will follow up periodically until implementation is complete. The department's responses are incorporated into the report. Their full responses are attached at the end of the report.

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## Introduction

The purpose of the County's Bank Reconciliation Section is to provide technical oversight of the County's accounting records by performing depository and disbursement bank reconciliations. Bank reconciliation operates as a key control in the County's financial system. In FY '99, the Department of Finance bank reconciliation section reconciled 33 bank accounts that totaled over \$2 billion in deposits and \$10 million in credit card deposits, which represents at least 95% of County departments.

## Purpose and Scope

We included a review of controls over the bank reconciliation process in our FY 2000 Audit Plan because this has historically been a problem area for the Department of Finance. The audit reviewed internal controls over bank reconciliation processes by the Department of Finance bank reconciliation section. We reviewed the bank reconciliation process and the 33 bank account reconciliations and related accounting records for FY'99. We examined compliance with Accounting Technical Bulletin 003, Bank Deposit Preparation and Procedural Memorandum 001, Year -End Reconciliation of Unresolved Deposits. We determined what automated capabilities exist in the FAMIS system to support bank reconciliations. We also followed up on the implementation of recommendations made by the Finance Study Team in 1993. The audit was conducted in accordance with generally accepted government auditing standards.

## Executive Summary

The Bank Reconciliation Section has completed all 33 bank account reconciliations for FY'99. They are to be commended for completing and maintaining the County's reconciliations on a timely basis.

In our opinion, the Department of Finance is properly reconciling the County's checking accounts and is in compliance with County policies and procedures except for the following:

- The Bank Reconciliation section of the Department of Finance has gone from an automated depository bank reconciliation process to a manual process. In November of 1997, the depository account automation was dropped during the implementation of the new FAMIS system. The Department of Finance should prioritize the automated depository request to be completed in the next 6 to 12 months to speed up the bank reconciler's process, eliminate errors, and reduce the need for overtime.
- The Policies and Procedures section of the Department of Finance has not updated procedures for the depository and disbursement bank reconciliation processes since 1994. We recommend that the procedures be updated to reflect the current processes.
- Information in the FAMIS system shows stop payment transactions being purged weekly. Implementation of the new FAMIS system in 1997 was not set up to allow the stop payments to remain available online for research and tracking. The Department of Finance should submit the stop payment system modification request to the Department of Information and Technology to be included on the priority listing. This enables the Bank Reconciliation section to track stop payments online.
- The Department of Finance has implemented 18 of 25 recommendations from the Finance Study Team Report. In December 1993, a study team was formed by the County Executive to conduct a review of the Finance Department. We performed a follow-up of the implementation of the Finance Study Team's Bank Reconciliation process recommendations. A summary of the follow-up is in Appendix A.
- Three County Departments were not recording and authorizing their deposits in FAMIS on a timely basis. Two of the departments have corrected these difficulties.

## Comments and Recommendations

The following comments and recommendations are directed to the Department of Finance (Items 1 – 5) and the Department of Housing, (Item 6).

### **1. The Bank Reconciliation Section has completed all 33 bank account reconciliation's for FY'99.**

The Bank Reconciliation Section has completed 33 depository and disbursement bank reconciliations for the County. Accounting Technical Bulletin 003 – for Bank Deposit Preparation and Recording states that “the Office of Finance is responsible for the monthly reconciliation of all bank accounts in the Treasurer’s Fund. The Department of Finance bank reconcilers are in compliance with the ATB 003. The Bank Reconciliation Section is to be commended for completing and maintaining the County’s bank account reconciliations on a timely basis through extra efforts, including an average of fifty hours overtime per month.

#### **Recommendation**

None.

### **2. The Bank Reconciliation section of the Department of Finance has gone from an automated depository bank reconciliation process to a manual process.**

The bank reconcilers are performing manual depository bank reconciliations for 33 County bank accounts. The Finance Study report dated 12/30/93, recommended that the DOF, Bank Reconciliation Section develop an automated process to support matching deposits between the bank records and FAMIS. The recommendation was implemented under the old FAMIS System, but was not revised to work with the implementation of the new FAMIS 4.2 system.

The Bank Reconciliation Section went from an automated depository process to a manual depository process with the implementation of the new FAMIS 4.2 system. It takes approximately six to eight workdays to complete one manual bank reconciliation. When the process was automated, it took 2 to 3 workdays, therefore, allowing staff to perform research on outstanding reconciling items. Research and supervisory responsibilities take a lower priority in the manual process.

The Department of Finance had to obtain additional help to perform bank reconciliations due to a backlog of work and the additional manual effort for depository accounts. The total cost for the additional personnel as well as employee overtime totaled approximately \$22,700, for an average of 50 hours per month. The request to re-introduce the automated process in the new system has been delayed due to other FAMIS system priorities.

#### **Recommendation**

We recommend that the Department of Finance prioritize the automated depository request to be completed in the next 6 to 12 months. We believe the time frame that this particular automated shortcoming has been in place should be considered in the criteria for prioritizing its ranking. Implementing this recommendation will speed up the bank reconciler’s process and prevent manual errors, reduce overtime and the need for additional outside help.

**Department Response**

We have initiated a request for DIT assistance. This request was followed up with a planning meeting on December 22, 1999, to prioritize the requirement. We are hoping to complete the automation effort by the end of June 2000.

**3. The Policies and Procedures section of the Department of Finance has not written updated procedures for the depository and disbursement bank reconciliation processes**

The Policies and Procedures section did write new automated procedures and processes for performing bank reconciliations as recommended in the Finance Study. However, with the FAMIS 4.2 implementation, the automated process for depository bank reconciliations was omitted. As described throughout the 1993 Finance Study, it is important that procedures be documented to define the bank reconciliation process. This is important due to the need for training and orientation of staff in circumstances where there is periodic turnover.

**Recommendation**

We recommend that the Department of Finance update the bank reconciliation procedures for both depository and disbursements accounts.

**Department Response**

This task has been accepted and we will complete the documentation by May 2000.

**4. Information in the FAMIS system shows stop payment transaction being purged weekly.**

System stop payments were identified with transaction codes under the old FAMIS. Stop payments remained in the system for two years before being purged, allowing bank reconcilers to track and research information. At present, stop payment information is being purged on a weekly basis, allowing the reconcilers no opportunity to obtain the information from the screen. Implementation of the new FAMIS system in 1997 was not set up to allow the stop payments to remain available online for research and tracking.

**Recommendation**

- We recommend the Department of Finance submit the stop payment request system modification in writing and on the priority listing to DIT within the next three to six months.
- We recommend that the stop payment information not be purged weekly and allow the stop payments to remain on the system for two fiscal years. This will enable the Bank Reconciliation section to track stop payments in the new system.

**Department Response**

A system change request has been submitted to DIT. We will follow up to determine its priority and expected completion date, and monitor progress to insure prompt implementation.

## **5. The Department of Finance has implemented 18 of 25 recommendations from the Finance Study Team Audit.**

In December 1993, a study team was formed by the County Executive to conduct a review of the Finance Department. The study team made recommendations in three financial areas including Bank Reconciliations. As part of our audit on Review of Controls Over County's Bank Reconciliation Process, we performed a follow-up of the Finance Study Team, Bank Reconciliations Process section.

We found that out of 25 recommendations 3 were not implemented, 3 were no longer applicable due to the new implementation of FAMIS and 1 recommendation was in process. We have recommended that the Department of Finance re-establish the priority listing for the depository automation. A summary of the following is in Appendix A.

### **Department Response**

The Finance study is now six years old. Since the team's report, in December 1993, we have made significant changes in our financial system, banking services, and automation support. Upon completion of all actions recommended by your audit, we will do a process review of bank reconciliation to look for additional efficiencies and improvements.

## **DEPARTMENT OF HOUSING**

### **6. Three County Departments were not recording and authorizing their deposits in FAMIS on a timely basis. This is not in compliance with ATB 003, Bank Deposit Preparation & Recording.**

There was an excessive amount of outstanding deposit and reconciling items dating back a year or more on the bank reconciliations for three Departments. During the course of our audit, we determined that two of the three Departments have corrected these difficulties. The remaining Department, the Department of Housing has not corrected the majority of the reconciling items. The Accounting Technical Bulletin 003 – for Bank Deposit Preparation and Recording states that the “cash receipts received by the County agency are to be deposited in the bank within 24 hours of receipt and posted to the financial system within 48 hours of deposit.

It also states that “reconciling items should be settled within 90 days after the close of the fiscal month. The untimely postings, authorization delays, and not settling reconciling items causes a backlog of outstanding items and additional work for the bank reconciliation section. This circumstance occurred because departments do not place importance on getting deposit documents recorded and authorized in FAMIS.

### **Recommendation**

We recommend that the Department of Housing review their business process for recording and authorizing deposits, and reconciling outstanding items to meet the requirements of ATB003. This will include streamlining their process to enable timely posting and authorization of transactions.



**Department Response**

The Department of Housing and Community Development (HCD) concurs with the recommendation.

The Department has taken immediate steps to address this issue. HCD has met with the Department of Finance to identify problem areas and continue toward completion of the reconciliation process.

Outstanding reconciliation items are being cleared and HCD finance is working with another HCD department to develop procedures to assure continued timely reconciliation.

## Status Of Major Audit Recommendations

<b>Audit Report Title:</b>	Review of Controls Over County Bank Reconciliation Process
<b>Report Number:</b>	00-06 and Follow-up to the Finance Study Recommendations
<b>Date Of Last Follow-up:</b>	November

	<b>Recommendation</b>	<b>Implemented</b>	<b>In Process</b>	<b>Not Implemented</b>
1.	Improve and simplify the spreadsheet layout along with the development of documented procedures. Organize the spreadsheets into logical step by step procedures and minimize redundant movement and key entry of dates and balance amounts.		√	
2.	Research and correct the nature of timing differences between the transactions on the report and the period covered by the monthly reconciliation. The new reports will properly reflect the time period required assisting the reconciliation process.	√		
3.	Make program modifications to show cancellations and stop payments separately. The initial report should be split into two reports, one for checks issued and one for cancelled checks and stop payments.	√		
4.	Implement job rotation as a standard part of the training effort.  This can be further enhanced with work performance standards designed to encourage a broad set of bank reconciliation duties.	√  N/A		
5.	Procedures should be developed and documented which establishes clear lines of authority and responsibility.  a) Supervisory oversight should be implemented and maintained to ensure that the correct person is properly carrying out the duties.	√		√

	<b>Recommendation</b>	<b>Implemented</b>	<b>In Process</b>	<b>Not Implemented</b>
	b) Bi-monthly meetings should be scheduled between Bank Reconciliation and Accounting and Reporting.	√		
6.	<p>Establish procedures that would require agencies to record each deposit as a single transaction into FAMIS. This would allow for the development of an automated matching procedure, which would clear off deposits, reported on the FAM802 and the bank statement when the item amounts and deposit slip numbers matched.</p> <p>a) Automated Monthly reconciliation of FAMIS deposit transactions to deposit information received in disk format from Nation's Bank.</p>	√		√
7.	Establish a formal communication network between the agencies and Bank Reconciliation listing the contact person from each agency and Finance. This will be done to help eliminate errors and exchange complete documentation to keep both parties informed.	√		
8.	Consider implementation of flex time to allow staff to have uninterrupted work time during extended hours.	√		
9.	Share checks research times with the Accounts Payable section and requires agencies to do more research work for themselves.	√		
10.	<p>More timely reconciliation of accounts and improved communication between the agencies and Finance (see BR-10).</p> <p>Emphasis on supervisory oversight to ensure timely reconciliation (see BR-26).</p> <p>Implementations of key study recommendations, which reduce workload, improve agency access to information, eliminate redundant tasks, and enhance staff abilities.</p> <p>More timely recording of deposits by agencies (see BR-20).</p>	√		
11.	Upon implementation of the automated			

	<b>Recommendation</b>	<b>Implemented</b>	<b>In Process</b>	<b>Not Implemented</b>
	<p>matching of deposit transactions, place responsibility for correct deposit transaction recording with the agencies.</p> <p>Allow agencies to submit deposit transactions directly through RIMS into FAMIS without the review step currently performed by Accounts Receivable.</p> <p>Eliminate the collection of deposit slips by Accounts Receivable and make the agency the point of record.</p> <p>Develop a report for feedback to agencies when deposit errors are found by Bank Reconciliation.</p>	√		
12.	Modify RIMS edits on the miscellaneous tables so that entries using the 081 and or 240 transaction code(s) used to record revenue and an expense credit and cash for the agency, must equal the amounts using the 508 transaction code, used to record cash in the treasurer's fund on the same RIMS shell or document.	N/A		
13.	Issue rubber stamps to each agency, which identifies their agency, and require that they be used on every deposit item.	√		
14.	Preliminary information from Nations Bank indicates that the credit card transactions can be batched so they may be reported on the bank statement in aggregate as opposed to the individual entries. (Also see BR-20).	√		
15.	<p>The Office of Finance must issue a formal statement specifying the procedures to be carried out for deposit preparation, RIMS document input, credit card transactions, and supporting documentation. A feedback loop must be established to notify agencies of errors so steps can be taken to correct/reduce these problems.</p> <p>An automated report of deposit errors must</p>	√		

	<b>Recommendation</b>	<b>Implemented</b>	<b>In Process</b>	<b>Not Implemented</b>
	be developed for delivery to agencies. See BR-14.			
16.	Design the deposit slips enhancement features to edit transactions for proper agency/account assignment. This on-line edit will compare the depositing entity identifier, which is a required input field, to the assigned accounts.	√		
17.	Provide for bank account separation by batch within the error file. Ensure that each batch has transactions for only one bank account.	N/A		
18.	The County can automatically generate re-issuance in RIMS from the previous day's stop payments transactions in FAMIS, using the document generation feature in RIMS. These transactions would be placed in the RIMS document authorization file for modification/approval.			√
19.	The County should formally adopt a 5-day waiting period before stop payments can be made. This problem would be virtually eliminated by direct deposit.	√		
20.	Establish clear lines of supervision with defined authority for approval of work, including physical signoff of work. Supervision is needed to ensure accuracy and timely follow-up.	√		
21.	Modify FAMIS inquiry for outstanding checks to allow agencies to view check information with vendor numbers. (This will not include payroll checks.) The Office of Finance must change security for systems users so they can make use of the inquiry capability. Also, a memo or Office Vision note must be sent to communicate the new inquiry availability. Lastly, this inquiry procedure must be added to the FAMIS standard training curriculum.	√		

22.	Nation's bank will provide us with a modem transfer of cleared disbursement checks on a weekly basis. This will eliminate any lag time in reconciliation caused by the inefficient transportation of magnetic tapes from site to site. Nations Bank normally offers this service to its customers. The ultimate solution would be a mainframe to mainframe interface.	√		
23.	Make benefits specialists and their supervisors aware of the importance of researching and updating their cases on a more timely basis. Once the recipient information is kept more current, less cancellations will be issued for bank account 146.			√